

MUNI'S BILLION DOLLAR PROBLEM

**To become the transit system that San Francisco
needs, Muni needs more revenue.**



A SPUR REPORT

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Muni's fiscal crisis

Muni is in the midst of a financial crisis. For the last five years, Muni has been able to patch over its structural deficit, primarily via a combination of one-time revenues, belt tightening, fare increases, and service cuts. This year, an improving economy and more one-time windfalls may get Muni through another year, but these short-term solutions do not address Muni's real long-term issue:

If Muni's structural deficit is not addressed head-on, in the years to come Muni may have no choice but to increase fares and cut more service.

This scenario is unacceptable: Muni needs to improve dramatically, not simply perpetuate the status quo. To make Muni the first-class transit system that San Francisco residents can rely on, City and MTA leadership must chart a course that will allow Muni to escape from its downward spiral of fare increases, service cuts, and dwindling ridership.

A large part of the solution is to reduce Muni's costs by changing how the Municipal Transportation Agency (MTA, the organization that manages Muni and the Department of Parking and Traffic) allocates right of way, manages our streets, and operates Muni so that it can be significantly faster, attract more riders, and become more productive. These cost-saving measures were discussed in detail in the September 2005 SPUR Report.¹

But no matter how effectively Muni improves its productivity, it still needs more money. To operate the improved transit system San Francisco needs, SPUR estimates that through 2015 Muni must find between \$284 and \$929 million of additional new revenue above and beyond its current sources.² The more Muni increases its productivity, the less additional revenue it will need to find. By aggressively improving Muni's quality of service to improve its productivity, MTA and City leadership could save

¹ This SPUR report was published in our September 2005 newsletter and is available on SPUR's website at www.spur.org/documents/pdf/050901_report_01.pdf.

² As planning-level estimates, these financial projections are meant to illustrate the likely magnitude of Muni's financial challenge for two different scenarios for Muni productivity improvement. They are based on MTC/ABAG projections for the region and mode splits calculated using the MTC year 200 Bay Area Travel Survey. These projections have been revised upward since SPUR's September 2005 report to reflect recent cost increases (e.g., higher than expected overtime charges and higher than expected costs associated with the 3rd Street light rail project) and the expectation that higher fuel costs will persist.

These financial projections are based on the following critical assumptions: a) Car trips in San Francisco will be maintained at 2005 levels and b) the mode share for all trips made in San Francisco by transit will shift from about 22 percent at present to about 27 percent by 2015. This will require approximately 1 million daily Muni boardings, up from the current boardings of about 700,000. The range of operating deficit is calculated using different productivities – the more productive Muni becomes, the less it will cost to meet these goals.

It should also be noted that in a status quo scenario in which Muni's share of all trips and its productivity did not change significantly, the magnitude of Muni's financial crisis would remain roughly the same due to rising costs.

San Francisco taxpayers \$645 million through 2015 (the difference between finding \$929 and \$284 million of additional revenue needed by Muni).

The financial needs in this report are based on SPUR's vision for 2015: **less congestion in San Francisco and dramatically improved Muni.**

Better Muni is not a goal in and of itself, rather it is a means to an end: a more livable, sustainable, economically-productive city for all San Franciscans. Finding the money and making the changes necessary to dramatically improve Muni will reduce congestion, enable economic growth, reduce pollution, promote social equity, increase public health, and generally improve our quality of life.

The potential consequences of not addressing Muni's structural deficit are dire. Without reforms and new revenues, service cuts could become an annual tradition at the beginning of each new fiscal year. As part of its package to address last year's budget deficits, Muni cut 7% of its service hours. Daily riders have felt the pinch, and some have abandoned Muni altogether rather than face more crowded, less frequent, more expensive service.

It will only take a few more rounds of service cuts to reduce Muni to a transit system of last resort for those that have no other option. Muni riders will bear the impacts of service cuts most directly, but the entire city will be worse off as deteriorating transit service increases traffic congestion on city streets and diminishes our overall economic competitiveness and quality of life.

Addressing Muni's structural deficit

Muni's financial problems are not unusual – they mirror the challenges faced by all labor-intensive industries in America over the last decade. Muni's structural deficit is the result of stagnant revenues being outpaced by the rapidly rising costs for retirement and health benefits, worker's compensation, materials, and fuel. Its structural deficit will not solve itself. And, if ignored, it will only get worse.

Addressing Muni's structural deficit requires a three-pronged approach to aggressively improve service, reduce costs, and increase revenues:

1. **Reduce costs by getting more out of each service hour provided.** As a measure of transit service efficiency, productivity – the number of people carried for each hour of transit service – is the bottom line: how much do you get for every hour of transit service provided? Roughly speaking, if Muni increases its productivity by 20 percent, it could provide the same amount of service it does today (about 3.5 million service hours annually) yet deliver 20 percent more service to riders. In short, by increasing

productivity, Muni could provide much more service with about the same number of service hours and employees.

2. **Reduce unit costs by reducing the cost of each service hour.** While Muni can reduce its costs by getting more productivity from each service hour, it must also reduce the cost of providing each service hour (also called unit costs). Currently, it costs Muni about \$115 per hour for a bus and about \$200 per hour for a streetcar to operate and maintain our transit system. Reducing the cost per hour of service increases the amount of service that can be provided with the same financial resources.
3. **Increase Muni revenues.** Even with these two cost-cutting strategies, Muni must also find new revenue to pay for the number of service hours that San Francisco needs to have a truly first-class transit system. *The purpose of this report is to estimate how much additional revenue is needed, and recommend where this new revenue should come from.*

Muni has already made some progress on all three fronts. Since 2000, Muni has developed new sources of revenue, worked with its unions to reduce unit costs, and in January 2006 initiated a process to rethink how Muni could offer better and more productive service. SPUR applauds these efforts, but even with these improvements, Muni has a long way to go when cutting costs and raising new revenues. Moreover, it takes time – up to three years – to plan, approve, implement, and reap the financial benefits of significant transit improvements designed to increase productivity. Until then, public transit in San Francisco is on the brink.

Making Muni faster is not a quick fix. Nor is finding additional revenue. Both are essential ingredients to make Muni a first-class and financially viable transit system. New revenues cannot wait until Muni proves itself.

Engaged and visionary leadership is needed during this critical period. Voters, transit riders, community groups, and the business community should hold MTA management, the Board of Supervisors, and the Mayor (who appoints the members of the MTA Board) accountable for creating a significantly improved and financially-sustainable transit system.

Five Steps to Make Muni Faster and More Reliable

1. **Increase the speed and convenience of boarding passengers.** Increase the use of prepaid fares and boarding areas. Expand proof-of-payment from Muni Metro to the whole system so that people can board through both doors of all buses. Add bus bulbs so buses do not have to pull in and out of stops.
2. **Reduce waiting time at red lights.** Retime traffic signals to favor transit. Speed up installation of signals that stay green for a few extra seconds when a bus approaches.
3. **Add more transit-only lanes.** Muni can't afford to pay its drivers to be stuck in traffic. Separated transit and car lanes on the busiest streets allow the most people to move most quickly.
4. **Improve transit stop spacing.** On some routes, Muni stops too frequently. San Francisco can't have speedy transit *and* excessively frequent stops. While respecting San Francisco's hills and local conditions, improved stop spacing is the cheapest, fastest, and easiest way to speed buses and increase ridership. People will go a bit farther to the bus stop if their transit trip is faster — the popular 38-Geary Limited, which stops about every four blocks, proves this every day.
5. **Favor primary transit corridors.** Shifting more transit vehicles to the primary corridors will benefit 80 percent of riders, relieve crowding, and reduce the time people spend waiting for transit. Focused high quality service is better than evenly spread, mediocre service.

These steps come from SPUR's September 2005 report that outlined how Muni could address the bulk of its expected deficits by making service faster, more frequent, and more reliable (and therefore more productive) on Muni's busiest routes. Gradually boosting Muni's productivity from 63 passengers per hour today to 80 by 2015 would reduce its deficit over the next ten years by 70 percent.

Increasing productivity to 80 passengers per hour can be done. Public transit systems in Boston and Vancouver, the two transit systems most comparable to San Francisco, have productivities of 75 and 80 passengers per hour. Raising Muni's productivity to 80 passengers per hour would simply restore it to levels Muni enjoyed between 1985 and 1992.

Because people value their time so highly, fast transit gives people what they want – to get where they want to go quickly. Transit systems around the world have used well-established low-cost methods to increase transit speeds by over 25 percent. In California, AC Transit, Caltrain, and the Los Angeles MTA have used some of the same techniques to achieve similar benefits. Faster Muni service will create an “upward spiral” by attracting more riders, reducing congestion, and saving Muni money.

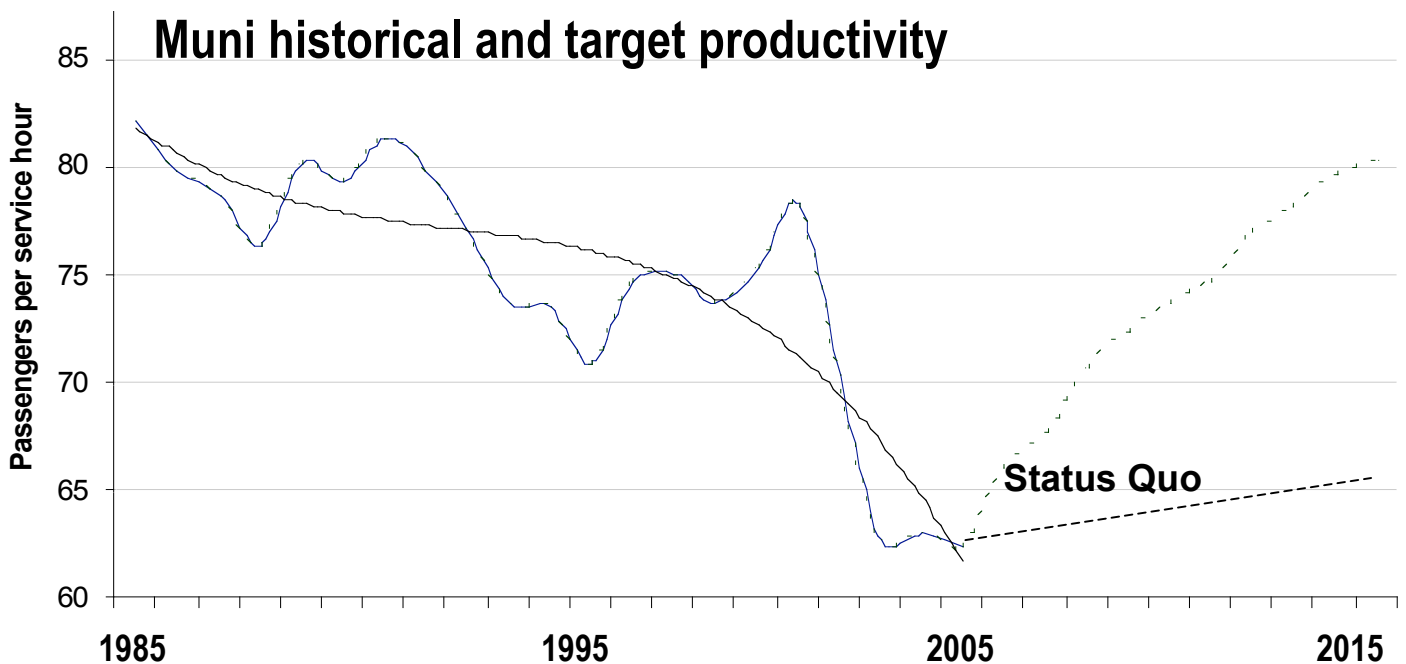
Making Muni move 25 percent faster and more reliably on its core network will require more dedicated right-of-way for Muni. This will inevitably mean, at least in some places, fewer on-street parking spaces and fewer travel lanes for cars, especially on primary transit corridors. If we want safer, greener, more pleasant streets, and a more convenient and efficient transportation system, then we must accept these tradeoffs.

How much additional revenue?

SPUR used two scenarios for Muni productivity growth to estimate the amount of new revenue Muni must find. The “status quo” scenario assumes Muni will continue on its current path of planned system improvements and ridership projections.³ This status quo scenario results in the *most* additional revenue that will be needed – \$929 million through 2015.

The *least* amount of additional revenue is required in the “significant improvement” scenario, reducing the needed additional revenue from \$929 to \$284 million. This scenario assumes that Muni improves enough to increase its productivity by 25 percent to 80 passengers per hour by 2015. This is the ambitious but achievable productivity goal recommended by SPUR that would return Muni to the productivity it enjoyed until the early 1990s.

Figure 1: Muni historical and target productivity: 1985-2015



Source: Muni Short Range Transit Plans; calculated by dividing annual ridership by annual service hours

³ Muni’s current plans for improvement as of 2005 imply a productivity increase of about 5 percent by 2015 (to approximately 65 passengers per hour).

Estimates of additional revenue needs in the future should not optimistically assume the best-case scenario for cost reduction. To make a reasonably conservative estimate of total additional revenue needs by 2015, SPUR suggests that Muni set as a revenue target the halfway point between the best and worst case scenario – \$605 million of additional revenue by 2015. While the halfway point is an arbitrary target, it provides a sufficiently aggressive start. In the years to come, revenue targets can be adjusted upwards or downwards depending on how effectively the MTA improves Muni service, attracts more riders, raises productivity, and reduces other costs.

Figure 2: Initial targets for necessary additional Muni annual revenue for 2007 to 2015

Fiscal year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total 2006-2015
Best-case scenario	\$5 M	\$30 M	\$36 M	\$22 M	\$28 M	\$43 M	\$30 M	\$41 M	\$51 M	\$284 M
Mid-point scenario	\$20 M	\$38 M	\$54 M	\$50 M	\$67 M	\$83 M	\$79 M	\$96 M	\$118 M	\$605 M
Worst-case scenario	\$35 M	\$50 M	\$74 M	\$79 M	\$103 M	\$123 M	\$128 M	\$153 M	\$184 M	\$929 M

Revenue needs of this magnitude will not resolve themselves. We must decide if we will accept more Muni service cuts, fare increases, and worsening traffic congestion, or if we are willing to pay for the better Muni service, levels of congestion, and quality of life we say we want.

Evaluation criteria for potential sources of new revenue

In light of its financial crisis, Muni may need to prioritize revenue sources with the greatest revenue potential and the lowest legal and political barriers to implementation. In a climate of reduced service and the risk of continued transit abandonment, Muni cannot afford to ignore potential sources of revenue.

Though Muni’s fiscal crisis may require a more pragmatic approach to finding additional revenue, the ideal approach is to find sources of new revenue for Muni that also accomplish other long-term policy goals. Thus, wherever possible, new revenue proposals for Muni should be supported by some analysis of the broader policy ramifications that show how they advance other City goals. In other words, the MTA should focus on strategic, not just opportunistic, sources of new revenue. SPUR recommends that City and MTA leadership use the following criteria to evaluate the net public policy benefits of potential new revenue sources for Muni:

Voters Support New Money for Transportation

Since 1978, the taxation powers of localities have been under attack across the nation, particularly in California. In less than 30 years, the anti-tax movement has crippled the capacity of local government to pay for public services by securing the passage of three state propositions (Prop 13, Prop 62, and Prop 218). State and federal funding allocations that favor auto transportation over public transit exacerbate the problem.

The upshot of this anti-tax trend means that it will not be easy for San Francisco to raise additional revenue for Muni through taxes, assessments, or fees. Specific taxes dedicated to Muni must be approved by a 2/3 vote. Specific assessments dedicated to Muni must be approved by a majority vote. In addition, the amount of a new specific assessment is limited to the amount of the specific benefit received by the property owner. While fees dedicated to Muni (such as user fees and impact mitigation fees) do not require voter approval, the amount of any user fee is limited to the City's "cost-of-service" (the cost to the City to provide the service for which the fee is charged) and impact mitigation fees are limited to the cost of addressing the negative impacts as identified by a nexus study.

While the legal constraints placed on local jurisdictions' ability to raise public revenue are significant, it should be noted that revenue measures dedicated for transportation improvements generally do extremely well in San Francisco, the Bay Area, California, and the nation. For example, San Francisco voters approved the Prop K transportation sales tax in 2003 by 75 percent⁴ and approved Regional Measure 2 in 2004 to raise the Bay Bridge toll by \$1 to pay for transportation projects throughout the region by 69 percent.⁵ Throughout the Bay Area, 6 of 8 transportation revenue measures on the ballot in 2004 passed (representing \$4.5 billion invested in transportation)⁶ and 9 and 11 passed statewide. That same year, San Francisco voters approved the multi-county BART seismic retrofit bond by over 73%. Nationwide, 36 of 44 transportation revenue measures were passed by voters in 2004⁷ and 19 of 22 transportation revenue measures passed in 2005,⁸ including all the revenue measures that proposed transit service improvements such as new or expanded light rail and Bus Rapid Transit systems.

New transportation revenues to improve Muni and multi-modal safety and mobility can be approved by San Francisco voters, assuming the proposed revenue measures:

- List specific multi-modal transportation improvements throughout the city that voters have said they want (as identified by public hearings, community outreach, polling, and focus groups);
- Identify how the new revenue will help achieve a long-term plan for a world-class Muni system in language that connects with a broad spectrum of the electorate; and
- Are supported by a well-organized campaign that makes the case both for the urgency of the need and the personal benefits to voters of a safer, more convenient, and more efficient transportation system.

Local and national experience shows that voters will support new taxes and fees to pay for transportation improvements that they believe will make their daily lives better in tangible ways.

⁴ "Election Results: Consolidated Municipal Election – November 4, 2003." San Francisco Department of Elections, 11/14/03. Accessed at www.sfgov.org/site/election_index.asp?id=19601.

⁵ In the 9-county Bay Area, the total yes vote for Regional Measure 2 was 57 percent. "Regional Measure 2 Passes." Metropolitan Transportation Commission, 3/30/04. Accessed at <http://www.mtc.ca.gov/legislation/rm2.htm>.

⁶ "Bay Area voters support transportation choices, reject road measures." Transportation and Land Use Coalition (TALC), 11/3/04. Accessed at www.transcoalition.org/c/2004measures_press_release.html.

⁷ "2004 Transit Ballot Measures." Center for Transportation Excellence. Accessed at www.cfte.org/success/2004BallotMeasures.asp.

⁸ "2005 Transit Ballot Measures." Center for Transportation Excellence. Accessed at www.cfte.org/success/2005BallotMeasures.asp.

1. New revenue sources for Muni should support an integrated congestion management program.

Under current policies and practices, San Francisco can expect about a 10 percent increase in the number of car trips per day between now and 2025.⁹ Planned transportation improvements over the next 10 years – including the approved citywide bicycle and bus rapid transit networks¹⁰ – will also reduce roadway capacity for automobiles on certain corridors. Moreover, SPUR anticipates that many more transit-only lanes will be included as a crucial part of the MTA’s upcoming plan to improve transit speed and reliability.¹¹

But worsening congestion is not inevitable. San Francisco can make the pedestrian, bicycle, and bus rapid transit improvements that we need without increasing auto congestion by actively managing car trips using price incentives.

Pricing to manage demand for auto travel would not only optimize revenue (although this would be one result), but would also address two of San Francisco’s most pressing transportation issues: 1) peak period congestion and 2) high demand for the limited parking supply. Some potential sources of revenue could simultaneously advance the robust citywide congestion management program that San Francisco needs.¹²

Adopting a goal of holding car trips at current levels and then implementing policies to achieve that goal would not only benefit Muni, it would help the City achieve its goals for land use, economic development, public health, and environmental sustainability. Less congestion would allow San

⁹ The San Francisco Transportation Authority (SFCTA) projects that under current policies and practices, there will be approximately 269,000 *new* vehicle trips beginning or ending in San Francisco by the year 2025, a 9.6 percent increase in the number of cars traveling on existing city streets.

¹⁰ The citywide bicycle network is contained in the 2020 San Francisco Bike Plan approved by the Board of Supervisors in 2005. Voters approved the bus rapid transit network as part of Proposition K in 2003.

¹¹ It must be emphasized that while these multimodal transportation improvements may reduce vehicle capacity on certain key pedestrian, bicycle, and transit corridors, they have the potential to increase the *total person capacity* of these streets, thereby improving the overall efficiency of San Francisco’s limited transportation system.

¹² Congestion management is often called transportation demand management (TDM) by city planners. TDM policies generally work by reducing the marginal cost of using other modes like walking, bicycling, or public transit and increasing the marginal cost of driving. From a policy perspective, increasing the marginal cost of driving is much more effective than simply increasing the cost of owning a car. For example, implementing a local gas tax, increasing the commercial parking tax, or removing the current City subsidies for employee and public parking are preferable revenue-raising approaches when compared to one-time annual vehicle fees. This is because transportation economists have calculated that 80 to 90 percent of the costs of driving are “fixed costs” (often called “sunk costs”) that represent just the cost of owning the vehicle itself, irrespective of the number of trips taken or distance traveled. These costs include purchasing and financing, insurance, registration, and the like. Small increases to these “ownership costs” have very little effect on congestion management, while increases to the “operation costs” – through measures like congestion pricing and demand-responsive prices for parking have been proven to have significant effects on reducing vehicle trips, especially at peak travel periods. For more information, see Vukan R. Vuchic “Transportation for Livable Cities,” Center for Urban Policy Research, 1999. For more information on congestion pricing, see Todd Litman “Road Pricing: Congestion Pricing, Value Pricing, Toll Roads, and HOT Lanes” accessed at www.vtpi.org/tdm/tdm35.htm.

Francisco to add critically-needed new housing and continue its vigorous economic growth without degrading our quality of life.

2. New revenue sources for Muni shouldn't discourage development in dense, transit-rich areas where Muni is most efficient.

FAREBOX RECOVERY RATIO

Muni will earn about \$120 million in fares in FY 2005, which will cover about 23 percent of its annual operating expenses. Comparing farebox recovery ratios between transit systems is tricky, because so many factors contribute to it – fares, density, operating conditions, etc. – but the comparison does suggest that Muni could do much better by increasing its productivity. This year, if Muni's productivity was 80 passengers per hour, its farebox-recovery ration would have been 28 percent.

SYSTEM	FAREBOX RECOVERY RATIO (2003)
New York	53 percent
San Diego	45 percent
Chicago CTA	42 percent
Philadelphia SEPTA	40 percent
Boston MBTA	29 percent
Los Angeles MBTA	27 percent
San Francisco Muni	23 percent
Houston MTA	19 percent
AC Transit	16 percent
Dallas DART	9 percent
Santa Clara VTA	9 percent

From the perspective of regional sustainability and traffic management, San Francisco must continue to concentrate jobs in dense, transit-rich areas like downtown and along the Market Street spine, where local and regional transit networks converge and Muni is most productive.

While downtown employers and developers should pay their fair share, it is counterproductive to discourage local or regional job creation in San Francisco's downtown. In particular, from a transportation perspective, a new Muni trip by an employee commuting to a low-density outlying development like Executive Park is more costly for Muni to provide than a Muni trip by an employee commuting to Market Street.¹³

Rather than raising the cost of jobs downtown through a higher payroll tax or an across-the-board downtown assessment, the MTA should consider taxing congestion and the sources of congestion. Reducing

congestion-related delay represents potential cost savings for Muni and will improve service. Many people support a downtown assessment because they believe that downtown has a greater ability to pay additional taxes. Discouraging auto congestion through pricing measures achieves the same end as

¹³ While located within the city limits, Executive Park is essentially a suburban-office park located in the southeastern edge of San Francisco near Monster Park (Candlestick). More info at www.sfexecutivepark.com/aerialmap.html.

a downtown assessment district but without the unintended negative consequences of discouraging development in the most transit rich areas – and has important secondary benefits.

Taxing congestion can take various forms. One is a London-style congestion-pricing program, where motorists are charged a fee for driving downtown at peak travel times.¹⁴ Other possibilities involve demand-responsive parking pricing, a peak period parking surcharge, progressive parking taxation, or increasing the existing commercial parking tax.¹⁵ These revenue ideas have the advantage of not discouraging the creation of new jobs downtown and other transit-accessible locations, which is the greenest place for the city's and region's growth to occur.

3. New revenue for Muni should come from sources that are sustainable in the long term. To stabilize its fiscal position from one year to the next and address its structural budget deficit, the MTA and City leadership should focus on new revenue sources that:

- Are diverse and local. Over reliance on just one or more large revenue streams can create major problems during economic downturns or policy changes.
- Yield revenue annually, rather than just provide a one-time revenue boost. Building budgets around one-time revenue windfalls is not sustainable.
- Automatically increase with inflation and/or rising costs in order to prevent the erosion of the revenue yield over time. Similarly, fares should be indexed to inflation.
- Strive for simplicity in administration, enforcement, and collection.

¹⁴ The SF County Transportation Authority is currently pursuing funding to conduct a study of the feasibility of congestion pricing in San Francisco. However, San Francisco could realize much of the benefits of congestion pricing if bridge tolls in the Bay Area were converted from a flat price structure to a peak/off-peak price structure. In addition, the MTA could institute a fairly robust version of congestion pricing by charging demand-responsive prices for on-and off-street parking it controls, as well as a surcharge for entering or exiting downtown off-street parking garages during peak times. Supporters of congestion pricing (including significant operational savings for Muni's surface transit vehicles) should not sit back and wait for a pending study: many of the benefits of congestion pricing can be realized in the short-term, with low-cost low-tech tools already at our disposal.

¹⁵ The existing commercial parking tax could be increased across-the-board, incrementally (e.g. a 2 percent increase every other year for the next 10 years), or selectively (e.g. where commuter-oriented, all-day parking is taxed at a higher rate than more productive short-term parking). Alternatively, existing loopholes in the parking tax could be closed. Regardless of the method, increasing the parking tax would be a more economically productive and environmentally sustainable way to raise revenue for transportation than a general downtown business tax increase.

4. New revenue sources for Muni should come from sources that are fair and equitable. Below are three common approaches to consider when evaluating the fairness and equity of new revenue sources for Muni.¹⁶

One approach to equitably raising revenue for public goods and services is to charge based on the benefit received. The “benefits received” approach includes such revenue sources as user charges, assessment districts, and impact fees. Of course, everybody in San Francisco benefits from a functional and convenient transit system. The most obvious group that benefits is transit riders, but businesses also benefit, and even those who don’t use transit benefit in the form of reduced congestion and cleaner air.

Another approach to equity is to charge based on the cost of mitigating the negative impacts (or externalities) that a particular behavior causes. This approach includes revenue sources that transition the City to charging more of the full social cost of an automobile trip, such as charging market rates for public parking and vehicle impact mitigation fees.

A third approach is to charge based on the ability to pay. This approach prioritizes new revenue for Muni from groups with greater financial resources and would apportion the total burden of the new revenue source differently for different income groups. Examples of the ability to pay approach might include progressive taxation at the local level (similar to the federal income tax) or new fees that apply universally but from which low-income individuals are exempt from paying.

As the MTA seeks additional new revenue, some tradeoffs among these three approaches are inevitable. The important point is that any revenue proposal put forward by the MTA should be supported with a serious analysis of the “incidence” of the revenue source (e.g. who pays and how much). This incidence analysis should account for the financial impacts on those who will pay the increased tax, fee, or fare in relation to the benefits received, the impacts caused, and within the context of overall ability to pay.

5. New revenue sources for Muni should minimize impacts on low-income, transportation-disadvantaged people. The impacts of new revenue sources should not disproportionately burden low-income people. When a potential revenue source has significant impacts low-income people, then service improvements should be made at the same time that will have the greatest benefit to those low

¹⁶ It is important to note that the three approaches can conflict, so that some revenue measures may be judged equitable using one approach but inequitable when evaluated using another. Resolving these conflicts is the task of policy makers, but these approaches provide a framework for evaluating fairness and equity of new revenue sources.

income populations who typically have limited travel options.¹⁷ While improvements to transit, biking, and walking generally disproportionately benefit the poor and those with fewer mobility options, the MTA should analyze the cost-benefit impacts of all new proposed revenue sources on transportation-disadvantaged populations.

Does the MTA Board Have One Hand Tied Behind its Back?

Under the MTA Charter approved by voters as Prop E in 1999, the MTA Board already has the authority it needs to develop new revenue sources for Muni. In fact, the MTA Board was explicitly empowered by Prop E to put new revenue sources – including taxes and assessment districts – directly before the voters, although they have yet to do so.¹⁸

Thus, the MTA Board already has significant authority to analyze and develop new revenue sources (and to submit those revenue proposals directly to voters), and it should exercise this authority. However, one way of enabling the MTA to optimize existing revenue sources and develop new ones is to provide the MTA Board with expanded authority over elements of the transportation system that are currently under the jurisdiction of the Board of Supervisors.

One example of the MTA’s constrained authority over the City’s transportation system is that while the MTA (under the auspices of the Parking Authority) is able to adjust the rates for *off*-street parking lots and garages to reflect the differing parking demand in different parts of the city without the approval of the Board of Supervisors, the MTA cannot at its discretion adjust the prices of *on*-street parking to match higher levels of demand or transit service in different parts of the city. A related example: the MTA also can’t allocate roadway space from on-street parking to more efficient bus-only lanes on key transit corridors without also seeking approval from the Board of Supervisors.

In other words, while the MTA has been given the responsibility for managing transportation in San Francisco and making Muni operate reliably, it has not been given all the tools it needs to do so. Worsening congestion is not inevitable as San Francisco grows. Unlike many transit agencies, the MTA not only operates Muni, but also manages San Francisco’s streets. Thus the MTA is in a position to effectively manage the city’s entire transportation system.

The MTA Board’s authority should be expanded to set the prices for on-street parking and allocate street space

¹⁷ Of course, Muni must also improve service for existing riders who have other travel options such as driving, and increase their market share among these so-called “choice riders”, so that transit is more attractive option than driving for more people.

for bus-only lanes on primary transit corridors, without needing to get final approval from the Board of Supervisors. San Francisco should follow the lead of other cities in California and nationwide that are attempting to make roadway allocation and parking management decisions based on their community's long-term policy goals.¹⁹

Giving additional authority over pricing and capacity decisions for the city's streets to the agency tasked with managing the transportation system is appropriate from a good government and fiduciary perspective, and would allow the MTA to manage parking demand, reduce congestion, optimize parking revenue, and make public transportation faster and more reliable. This proposal would also reduce the political friction surrounding raising on-street parking prices in San Francisco, as was demonstrated during the MTA's FY 2004-2005 budget cycle, when the MTA Board authorized a \$1 per hour increase in parking meter prices but the Board of Supervisors – which must face the voters in their district every four years – refused to approve the MTA's recommend increase.²⁰

Recommendations

Filling the cumulative budget gap through 2015 with new revenue will require an aggressive and realistic plan for each of the next three especially important years, as well as a longer-term plan to raise the substantial amounts of additional revenue necessary to remedy Muni's long-term structural deficit. SPUR recommends that MTA and City leadership take the following steps to confront Muni's ongoing fiscal crisis:

¹⁸ The City Charter states: "The Mayor, the Board of Supervisors, and the Agency [MTA] diligently shall seek to develop new sources of funding for the Agency's operations, including sources of funding dedicated to the support of such operations, which can be used to supplement or replace that portion of the Municipal Transportation Fund consisting of appropriations from the General Fund of the City and County. To the extent permitted by State law, the Agency may submit any proposal for increased or reallocated funding to support all or a portion of the operations of the Agency, including, without limitation, a tax or special assessment, directly to the electorate for approval without the further approval of the Mayor or the Board of Supervisors. The Agency shall be authorized to conduct any necessary studies in connection with considering, developing, or proposing such revenue sources." Source: City Charter, Article 8, Section 109 (Municipal Transportation Authority: Additional Sources of Revenue). Added to San Francisco City Charter November 1999.

¹⁹ In 2005 the City Council of Redwood City granted the staff-level downtown parking manager the authority – without going back to the City Council – to adjust curb parking prices on a periodic basis to keep downtown parking occupancy at 85 percent. This was done in order to ensure there will always short-term curb parking available in their downtown area. The enabling legislation is based in full conformity with California statutory law and supported by established case law. Accountability is ensured by requiring the parking manager to report back to the City Council on an annual basis, and by the inclusion of language within the local enabling legislation emphasizing that the City Council can always rescind this authority.

²⁰ The Board of Supervisors rolled back the increase to \$0.50 per hour, despite off-street parking prices that are significantly higher in downtown and most commercial districts throughout the City. For example, market rates charged by commercial parking operators for off-street parking downtown range from \$6 to \$10, but the City still charges \$3 per hour for more convenient curb parking spaces.

1. Begin immediately. A limited number of revenue sources can be implemented fast enough to start generating additional income for Muni by July, the beginning of its fiscal year. The timeframe for ideas that require voter approval or enabling legislation at the state level is at least a year, potentially more.

Given these lead times, the MTA should accelerate the implementation of any revenue generating changes that require only the approval of either the Board of Supervisors and/or MTA Board. For those revenue sources that require studies or voter approval prior to implementation, the MTA should initiate these studies and start developing ballot proposals immediately.

Good budget news this year is no excuse for City and MTA leadership to rest on their laurels. Any revenue that can be secured this year must be pursued. First, new revenues must fill this year's budget deficit. But Muni also immediately needs revenue for a "rainy day fund" or to reverse service cuts.

There are a number of revenue sources that the MTA should pursue immediately. These include:

- Improve enforcement of current rules. Ideas include improving the deployment of parking control officers (additional \$4 million per year) and the enforcement of the parking tax (additional \$1 million per year). The MTA could work with the Planning Department to start enforcing the prohibition of daily, weekly, monthly, or yearly rates for off-street parking downtown. Besides being a powerful means to reduce congestion, this would generate at least an additional \$4-6 million per year.²¹
- Increase the rates and hours of on-street parking meters in areas where demand is high in order to ensure 85% occupancy. This would not only increase meter revenue for Muni by about \$10 million a year, but would also increase availability of parking by using pricing to more efficiently manage demand. With 15% parking availability, convenient curbside parking spaces would be easy to find.

Availability of convenient curbside spaces benefits motorists because they spend less time searching for parking spaces. It also benefits merchants because customers can more easily find a parking space near their store. Fewer cars circling the block looking for parking means less traffic congestion on neighborhood streets, less air pollution, and fewer bicycle and pedestrian collisions with drivers who are focused on finding an empty space. Demand-

²¹ This prohibition for time-specific periods is contained in Sec. 155 (g) of the City's Planning Code: "In order to discourage long-term commuter parking, any off-street parking spaces provided for a structure or use other than residential or hotel in a C-3 District [greater downtown], whether classified as an accessory or conditional use, which are otherwise available for use for long-term parking by downtown workers shall maintain a rate or fee structure for their use such that the rate charge for four hours of parking duration is no more than four times the rate charge for the first hour, and the rate charge for eight or more hours of parking duration is no less than 10 times the rate charge for the first hour. Additionally, no discounted parking rate shall be permitted for weekly, monthly, or similar time-specific periods."

responsive pricing also benefits Muni by optimizing meter revenue and improving reliability by reducing double parking.

2. Dedicate more resources to securing Muni’s financial future. Developing new revenue sources and stewarding these proposals through the City’s sometimes byzantine bureaucratic and political process is time consuming and staff intensive. MTA staff has been working hard on finding additional revenues for Muni, and providing MTA staff with the resources to continue their efforts in a strategic and sustained manner is critical. If the MTA does not have enough staff to dedicate to these projects, it should seek immediately to hire additional staff or employ outside help to bolster its ability to evaluate, propose, and implement new revenue sources or to optimize existing ones.

3. Balance the next three years’ budgets without service cuts or fare increases. San Francisco cannot afford to run Muni into the ground by continuing to cut service, increase fares, or by deferring needed maintenance. The MTA must reduce costs and use creative financing to avoid disruptive short-term service cuts or another fare increase. Likewise, the MTA cannot continue to balance its annual budgets by deferring critically-important maintenance necessary to keep the system in a state of good repair.²²

4. Aggressively reduce costs. Muni should continue to aggressively reduce costs through increased productivity and reduced unit costs. The changes recommended in the service efficiency study that the MTA and City Controller recently initiated must move quickly from the drawing board to the driver’s seat.²³ It is likely to recommend many changes that require very small up front capital investments that will reap large operational savings (and pay for themselves in just a few years). Efforts to work with unions to reduce unit costs and improve service quality should also continue.

5. Present multi-year budgets. SPUR recommends that the MTA immediately begin to develop three-year and five-year budget forecasts as part of its annual budget process. A multi-year budget forecast using various forecasting assumptions would change the annual budget process from one that

²² Deferred maintenance not only leads to increased breakdowns that inconvenience Muni riders (acting as a form of “unscheduled service cuts”), but they can also lead to dangerous conditions that compromise the safety of both riders and operators and expose the City to increased risk of expensive litigation.

²³ The implementation of plans developed in the MTA service efficiency planning process should be expedited as much as possible. Because of Proposition K, the extension of the ½ cent transportation sales tax passed in 2003, the City has a significant amount of capital funding for transit improvement projects. If more capital funding were necessary, general obligation bonds, benefit assessment districts, or tax increment financing could finance the balance. Besides helping the City to meet its other long-term policy goals, transit service upgrades are worthwhile investments that increase City revenues in the long-term in two ways. First by improving access to private property, transportation investments increase property values. Secondly, by creating a more favorable business environment, transportation investments increase commercial activity. Thus, investments to improve Muni should be viewed as “priming the pump” for increasing property taxes and sales taxes, and leveraging the city’s global competitive position.

often utilizes a patchwork of one-time revenues to one that plans for the reliable revenue necessary to pay for the amount of Muni service necessary to meet the City's transportation goals.

This in turn would provide policymakers the information they need to develop the future new revenue sources in a timely and strategic manner. In particular, multi-year budgeting would allow the MTA to highlight financial needs that lay just around the bend and – perhaps most importantly – help convince voters of the critical importance of various revenue measures to meet those needs sooner rather than later.

6. Link financial goals to long-term transportation goals in San Francisco. The financial goals in these multi-year budgets should be driven by a clearly articulated vision for how transportation can improve the quality of life for all San Franciscans and, consequently, how much it will cost to operate the Muni system that we need. MTA and City leadership must help make the case that Muni's budget needs are related to the amount of congestion we are willing to tolerate, how we want to manage parking, how attractive and convenient we want Muni to be, and how our transportation policies and investments can support our larger social, environmental, and economic goals.

7. Present multiple budget scenarios. In addition to undertaking multi-year budgeting forecasts, the MTA should continue the practice (begun during the FY 2004-05 budgeting process) of presenting multiple budget scenarios to the MTA Board based on different combinations of revenue options and potential operational savings. This approach allows the MTA Board, customers, and employees to evaluate several budget options, rather than a single “take it or leave it” budget scenario that more often reflects political calculus or the desire to put forward “good news” in an election year rather than an accurate reckoning of the MTA's true long-term financial needs.

This is not only sound budget-making protocol, but also a good-faith gesture that allows for open dialogue about the inherent trade-offs of various budget options as they relate to the MTA's (and the public's) vision for the City's transportation system.

8. Create a rainy day fund for the MTA. Public transit agencies need fiscal stability to effectively plan for the future, and to some extent they can provide it for themselves. The MTA should create a rainy day fund as part of a counter-cyclical fiscal policy that will help to buffer ups and downs in its revenue stream, allowing the agency to maintain a functional transit system (and even continue to improve service) during economic downturns or periods of reduced transit funding from state and federal government.

The table of revenue ideas in this report describes revenue sources that could become available within the next four years, provided that MTA and City leadership immediately take the necessary steps.

These include: initiate revenue optimization studies, conduct nexus analyses, and develop ballot proposals for November 2006 election.²⁴

Note that all revenue projections in this table are conservative high-level planning estimates based on the best data available to the authors. More thorough analysis should be done by the MTA and partner City agencies.²⁵

This report focuses primarily on potential revenue sources for Muni that the MTA, the Board Supervisors, and the Mayor could implement at the local level. (Exceptions are the handful of revenue measures discussed that would require a change to an existing state law or new enabling legislation at the state level before they could be implemented locally). This focus was intentional, as SPUR believes that MTA and City leadership must take control of the City's transportation destiny by pursuing immediate implementation of every possible local revenue source, rather than waiting for relief that may never come from the regional, state, or federal level.

Conclusion

Muni is in the midst of a financial crisis. The status quo is characterized by a structural deficit coupled with stagnant productivity that will lead Muni still deeper into the vicious downward spiral of service cuts, fare increases, employee layoffs, dwindling ridership, and worsening congestion.

Why is improving Muni and finding the money to pay for it so important? In the long-term, faster more efficient Muni holds the key to making San Francisco an even better place to live. Better Muni and holding traffic congestion at today's levels are not goals in and of themselves. Rather, they are a means to an end that help San Francisco accomplish its other goals, whether for economic growth, access to opportunities, public health, safety, sustainability, freedom of mobility, or equity.

Too often, getting around San Francisco is the subject of complaint rather than praise, whether the topic is walking, biking, driving, parking, or taking Muni. We cannot stand by as transportation issues – growing congestion, increasingly scarce parking availability, eroding mobility, lackluster

²⁴ In some cases, potential revenue measures would require a change to local law or state enabling legislation. Wherever changes in local or state law are known to be required, the likely process for making such changes is described. However, some of the proposed revenue measures may ultimately require legal changes that the authors are unaware of; but this doesn't not mean that such measures – and the required changes to local law or creation of state-enabling legislation – should not be pursued. Finally, it should be noted that some of the revenue measures that are currently considered illegal in San Francisco under State law have been implemented in other California cities suggesting that these cities have arrived at a legally-defensible interpretation of state laws that enables them to implement the revenue measures; these examples are noted where applicable.

²⁵ Many of the proposals discussed below represent transportation best practices. They should be implemented on policy grounds even if final revenue estimates vary from the estimates presented in this report.

streetscapes – diminish our quality of life rather than make our lives easier, more pleasant, or even more delightful. *Something must change and change quickly.*

SPUR has recommended one course of action for addressing Muni’s structural deficit that would avoid service cuts, fare increases, or deferral of needed maintenance. The revenue ideas it proposes do double-duty: besides providing urgently needed revenue they would be the beginning of the City’s first coordinated and strategic congestion-management program. Less congestion will help San Francisco grow and prosper while simultaneously allowing Muni to operate faster and more reliably.

Whatever course chosen by City and MTA leadership, the next few years will require many tough choices. Though difficult, choosing the best new revenue measures to support may be among the easier choices that transportation policy makers will face. More difficult may be the choices about how to better manage our City’s streets and parking supply to achieve both our transportation goals and our quality-of-life goals.

These choices will involve clear tradeoffs, and no doubt some of these choices will be controversial, but this is no excuse to sit back and do nothing. Instead, San Francisco should proceed as quickly as possible with the bold thinking and necessary changes to realize a progressive transportation vision for the city: a more convenient, efficient, humane, and economically-productive transportation system that a great city like San Francisco deserves.

This report has been written by Jay Primus and Jeremy Nelson, both associate project managers at Nelson\Nygaard Consulting Associates, a San Francisco-based transportation consulting firm. It was reviewed, debated, and approved as SPUR policy by the SPUR Board of Directors on January 18, 2006. The authors would like to acknowledge the many people who contributed ideas and valuable feedback for this report.

Possible Revenue Source	Description	Process	Revenue Available	Est. Annual Net Revenue	SPUR Supports?
Improve Enforcement of Existing Rules					
Hire more fare inspectors	In order to reduce fare evasion, the MTA could hire more proof-of-payment (POP) inspectors. Converting all Muni to POP would have operational benefits, but it is unlikely that the operational cost savings and impact on fare evasion rates (if any) would fully offset the costs of hiring more inspectors.	MTA administrative decision; MTA Board approval of funding	Immediate	-\$5 to \$5 million	Yes
Improve enforcement of parking violations	Parking Control Officers (PCOs) are currently deployed using beats developed long ago. Rethinking PCO beats and priorities could result in more efficient enforcement. This revenue estimate assumes that rethinking PCO deployment could result in a five percent increase in parking fine revenue.	MTA administrative action	< 9 months	\$4 million	Yes
Improve enforcement of parking tax	Forty percent of San Francisco's parking tax revenue goes to Muni. Collection of the parking tax has been improved dramatically in recent years, but this revenue estimate assumes that improved enforcement of the parking tax could increase revenues by a modest five percent. ^a	MTA Board or Board of Supervisors approves independent audit in coordination with Tax Collector's office	< 6 months	\$1 million	Yes
Enforce rules for pricing of parking downtown	The City's Planning Code dictates that all downtown commercial parking must be priced to discourage all-day parking and prohibits daily, weekly, and monthly rates. ^b This is an effective way to encourage availability of parking for short-term parkers (e.g. shoppers and visitors) and discourage commuting downtown by car. Few if any off-street parking operators adhere to this requirement, including the city-owned garages, and the Planning Department does not enforce this rule. Besides generating a significant amount of new revenue, enforcing this existing law would serve important congestion management goals.	MTA administrative action; coordination with Planning Department	<6 months	\$4 –6 million	Yes
Automate street cleaning enforcement	About 14 percent of PCO resources are used to enforce street cleaning. By installing cameras on street sweepers themselves, the enforcement of this violation could be partially automated, freeing PCO resources for enforcement of higher priorities violations that undermine that the safety and efficiency of the transportation system. ^c	Requires state enabling legislation; MTA Board or Board of Supervisors approval	< 36 months	\$6 million	Yes
Muni Pricing					
Implement across-the-board fare increases	One potential revenue source is to increased adult single-ride fares to \$1.75 and adult monthly Fast Passes to \$60. Because most Muni fare categories were increased twice in the past 3 years (2003 and 2005), across-the-board fare increases in the short-term are not a good option. However, as is done by many other transit agencies (including BART) Muni's current fares should be indexed to inflation in order to prevent erosion of the real value of farebox revenue from year to year.	MTA Board approval	< 6 months	\$16 million	No
Charge higher fares for premium Muni service	Many transit systems throughout the world charge higher fares for premium services such as express buses. ^d When Muni service improves to a certain level (in terms of speed and reliability) on its streetcar and BRT lines, Muni might be able to charge more for these premium services (though monthly passes and discounted fares would still be valid).	MTA Board approval	< 6 months	\$6 million	Not yet

Transportation Demand Management					
Institute demand-responsive pricing for on-street short-term parking ^e	<p>In order to make the most efficient use of scarce on-street parking in a way that will better serve neighborhood business districts, reduce congestion caused by circling for parking, and optimize revenue for improving Muni, the MTA should begin pricing parking to achieve 85% occupancy.^f This could be accomplished by adding more meters where needed, expanding the hours and days of meter operation, and increasing meter rates to fair market rates wherever demand exceeds 85%.</p> <p>Current meter revenue is approximately \$21 M per year. Depending on how this proposal is implemented, our analysis estimates that demand-responsive pricing could increase meter revenue by \$6 to \$30 M. To increase the political acceptability of this proposal, some portion of the increased revenue could be dedicated to pay for improvements in the neighborhoods where the money was generated, while still generating a net revenue increase for Muni.^g</p>	MTA Board approves funding for city-wide parking pricing study; MTA Board and Board of Supervisors set appropriate prices per study findings	Initial changes: < 3 months Subsequent changes: < 18 months	\$6 – 30 million	Yes
Charge fair market rates for parking for City employees and City-funded institutions	Currently, much if not most of parking provided to City employees and employees of major City-funded institutions is priced at well below fair market rates. Free or below market-rate parking prices are a taxpayer-funded subsidy that encourages automobile commuting, increases congestion at peak travel periods, and raises Muni's operational costs. Charging fair market rates for this parking would simultaneously generate revenue that could be dedicated to the MTA while simultaneously reducing Muni's costs.	Mayor and/or Board of Supervisors negotiate employee contracts at annual budget process	< 12 months	< \$1 million	Yes
Increase commercial parking tax	The current commercial parking tax is 25% and generates approximately \$50 M per year, with approximately \$16 M going to Muni. Under current allocations, increasing the parking tax to 35% would generate approximately \$22 M with \$4 M going to MTA (or \$9 M if the City Charter were changed to strike the 50% parking tax giveback to the General Fund as currently required by Prop E). ^h	MTA Board or Board of Supervisors place on ballot; 2/3 voter approval	< 12 months; Nov. '06 ballot	\$4 million	Yes
Expand pricing of on-street residential parking city-wide ⁱ	Currently, about 1/3 of the city is covered by an existing Residential Permit Parking (RPP) District, meaning that at least half the city's on-street residential parking supply is completely unpriced. If pricing of on-street residential parking was able to be expanded citywide at the initial rates of \$240 per year (\$20 per month), approximately \$10 M of new revenue could be generated. ^j As pricing is a more effective way to manage parking demand than time limits, an important benefit of this proposal for motorists is that it will be easier to find a parking spot in their neighborhood.	MTA Board or Board of Supervisors authorize study of RPP reform options; MTA Board and Board of Supervisors approval of RPP reforms per study findings	< 24 months	\$10 million	Yes
Increase fines for parking violations	The primary role of parking violations is to serve as a deterrent, not to generate revenue. Many fines for parking violations in San Francisco are already at high enough levels to serve as a deterrent (although spotty enforcement undermines this deterrent effect). However, the MTA should strategically increase fines for parking violations that undermine the safety and efficiency of the transportation system.	MTA Board and Board of Supervisors approval	< 6 months	N/A ^k	Yes
Implement a local gas tax	Taxing sales of gasoline in San Francisco County is permitted under the Public Utilities Code. This revenue estimate reflects a \$0.01 per gallon tax. ^l SPUR believes that a gas tax should be pursued, but will be much more effective and lucrative at a regional level.	MTA Board or Board of Supervisors place on ballot; 2/3 voter approval	< 12 months; Nov. '06 ballot	\$2 million	No

Add a peak period surcharge to off-street parking	Many cities use mechanisms to discourage driving during peak times as a way to manage congestion. Placing a \$3.00 surcharge for entering or exiting an off-street parking facility downtown during times of peak congestion (e.g. 7:30 to 9:30 AM and 4:00 to 6:30 PM would be a simple method of implementing peak period congestion pricing compared to the technologically-intensive system recently implemented in London (where drivers pay \$14 to drive into downtown during peak travel periods).	MTA Board and Planning authorize nexus study; MTA Board and Board of Supervisors approves fee per study findings	< 18 months	\$14 million	Yes
Assess a Parking Congestion Impact Fee	Every parking space accommodates and facilitates vehicle trips, and these trips have quantifiable financial impacts on Muni. The impact of these vehicle trips on Muni can be captured with an annual Parking Congestion Impact Fee on all off-street parking spaces not subject to the commercial parking tax. An annual fee of \$104 (actual fee to be determined by nexus study) could have a net revenue potential of \$14 M for Muni every year. ^m	MTA Board or Board of Supervisors authorize nexus study; approve appropriate fee per study findings	< 36 months	\$14 million	Yes
Additional					
Asses a parcel tax for transit	Every San Francisco property owner benefits in some way from a first-class Muni service, so the MTA could justify a flat tax on every parcel of real property in San Francisco. However, this revenue proposal is less preferable from a policy perspective because it does not accomplish any congestion management goals.	MTA Board or Board of Supervisors place on ballot; 2/3 voter approval	< 18 months; Nov. '06 ballot	\$20 million	No
Increase the state sales tax for transit ⁿ	Doubling the state's sales tax rate for transit (Transit Development Account, or TDA) would generate approximately \$30 M annually for Muni, which could be used to fund either operating or capital costs. Since the TDA is a state tax, it would not count against the state cap on local sales taxes, thereby preserving the option for San Francisco to also raise the sales tax at the local level to pay for Muni operations.	Requires state enabling legislation; MTA Board, Mayor, and Board of Supervisors lobby for passage at state level	< 9 months	\$30 million	Yes
Increase the Vehicle License Fee	The Vehicle License Fee (VLF, or "car tax") could be restored to its historical rate of 2% (or increased further) in order to pay for some of the externalities that the operation of these vehicles cause, including delays to Muni. Based on the 475,000 vehicles registered in San Francisco, restoring the VLF to 2% could have a net revenue potential of approximately \$60 M. ^o	Requires state enabling legislation; MTA Board or Board of Supervisors place on ballot; 2/3 voter approval	18 months; Nov. '07 ballot	\$60 million	Yes
Assess a Vehicle Impact Mitigation Fee	A Vehicle Impact Mitigation Fee would be a surcharge paid at time of annual vehicle registration. Based on the 475,000 vehicles registered in San Francisco, an annual impact fee of \$104 (actual fee to be determined by nexus study) could have a net revenue potential of approximately \$36 M. ^p	Requires state enabling legislation; MTA Board or Board of Supervisors authorize nexus study; MTA Board and Board of Supervisors approves fee per study findings	18 months	\$36 million	Yes
Increase the local sales tax	San Francisco could raise its sales tax another ¼ percent to pay for Muni operating expenses. Sales taxes are preferred to other broadly applied taxes because many non-residents help to pay them. On the other hand, local sales taxes are also criticized for being regressive.	MTA Board or Board of Supervisors place on ballot; 2/3 voter approval	< 18 months; Nov. '07 ballot	\$27 million	Yes

Create a downtown assessment district for transit	Placing a fee on downtown businesses for the burden they place on the Muni system would be counterproductive to the extent that a downtown assessment discourages development where Muni can most efficiently move people, discourages businesses from locating in downtown (which reduces potential revenue to the city's General Fund), and thereby encourages regional sprawl. However, a citywide transit assessment district, with the fee indexed to Muni's cost-per-trip, should be considered so long as it is structured in such a way that it incentivizes development in relatively dense areas well-served by transit where Muni is most efficient.	MTA Board or Board of Supervisors authorize nexus study; approve appropriate fee per study findings	< 24 months	Relatively low	No
Expand MTA joint development	To leverage the value of the MTA's real estate assets, the MTA should continue its joint development efforts generating revenue from ground leases (e.g. selling development rights while maintaining ownership of the property). Joint development can require a long lead-time, but they have the potential to generate significant ongoing revenue.	Varies	Ongoing	Relatively high	Yes
Index TIDF based on proximity to primary transit corridors and apply to residential development	The net transportation impact of development is higher in areas that are more than a ¼ mile away from San Francisco's primary transit network. The transportation impact development fee (TIDF) on new commercial development is currently assessed equally everywhere in the city, but could be revised to increase the fee for development located further away from areas well-served by transit in order to mitigate the greater impacts of such development to the transportation network. At the same time the TIDF is indexed based on proximity to transit service, it could also be applied to residential development (which is currently exempted under the existing TIDF structure).	MTA Board or Board of Supervisors authorize nexus study; approve appropriate fee per study findings	< 36 months	Relatively low	Yes

^a An independent audit by an outside consultant specializing in parking tax would likely be able to identify some additional revenue and ideas for guaranteeing that Muni gets the optimal revenue from this existing source.

^b This prohibition for time-specific periods is contained in Sec. 155 (g) of the City's Planning Code: "In order to discourage long-term commuter parking, any off-street parking spaces provided for a structure or use other than residential or hotel in a C-3 District [greater downtown], whether classified as an accessory or conditional use, which are otherwise available for use for long-term parking by downtown workers shall maintain a rate or fee structure for their use such that the rate charge for four hours of parking duration is no more than four times the rate charge for the first hour, and the rate charge for eight or more hours of parking duration is no less than 10 times the rate charge for the first hour. Additionally, no discounted parking rate shall be permitted for weekly, monthly, or similar time-specific periods."

^c This proposal would require state enabling legislation similar to the state law which allows photo enforcement of red light violations. The MTA Board, Board of Supervisors, and Mayor should immediately begin with San Francisco state legislators and the City's lobbyist to move such enabling legislation forward.

^d A precedent for this already exists in San Francisco, as Muni currently charges more for a premium service with a \$5 cable car fare. This revenue estimate is based on a \$2 cash fare for current streetcar and expected Geary BRT ridership.

^e At or near the same time the MTA begins transitioning prices for on-street short-term parking to rates that maximize efficient use and optimize revenue, the MTA Board, the Mayor, and the Board of Supervisors should take whatever steps necessary to provide the MTA Board with the authority it needs to set on-street meter rates without getting separate approval from the Board of Supervisors. This proposal – which might take the form of a Charter amendment put before voters – could be paired with a guarantee that all meter revenue (after netting out small revenue increments that may in the future be dedicated to pay for local improvements as part of a parking benefit districts concept) would be dedicated to Muni. This would give the MTA greater control over on-street parking revenue and parking management policy and provide voters a guarantee that meter revenue would be used to improve Muni.

^f Public-rights-of-way are one of the City's most valuable resources, part of the transportation system, our open space network, and our commons. The City has historically undervalued this scarce public asset by leaving much on-street parking free and unregulated; when on-street parking is priced, rates often appear to be based on a political calculus rather than analysis of what an appropriate price might be to optimize revenue and efficiently manage this limited public good.

^g The Transportation Authority is currently funding a study of parking management techniques including how San Francisco might implement a program that allows local neighborhoods and commercial districts to retain some increment of increased revenue for on-street pricing to pay for neighborhood improvements or services. This study is important, but the City and MTA need not wait for this study to conclude to begin to apply many of the core parking management principles described in this report. Many other California cities have already successfully implemented these ideas, and even San Francisco agencies like the Port are beginning to implement these ideas in order to optimize parking availability and revenue.

^h In order to increase the revenue potential for Muni, at the same time the parking tax is increased, the existing allocations could be revised (either just for the revenue increment or the total revenue amount). Alternately, a Charter amendment could be pursued to rescind the 50% General Fund giveback provision in Prop E. At the same time, closing existing loopholes in the parking tax should also be considered.

ⁱ Current city law requires that a majority of residents request that a Residential Parking Permit (RPP) district be created on their block. Under current city law, only residents of an area can approve a RPP district. Before expanding pricing for residential parking citywide under the current RPP system, SPUR believes that a comprehensive study of all possible policy options for how demand for on-street residential parking might be better managed should be undertaken by the MTA or BOS. As one alternative, that study should consider transitioning pricing of on-street residential parking from a user-fee based RPP system to an impact fee or metering system in order to better manage parking demand, reduce parking spillover, and optimize revenue. Currently the MTA sets prices for Residential Parking Permits under the constraint of state "cost-of-service" requirements for user fees. In order for the MTA to transition rates charged for on-street parking in residential areas to fair-market prices and/or full social costs, the agency must have a legally-defensible way to develop a more expansive definition of "cost-of-service" to include externalities and opportunity costs. Alternately, the MTA could abandon the current user-fee RPP system for pricing residential parking and move towards an impact fee or metering system. Under an impact fee system, the MTA would authorize a nexus study to determine the full social value of an on-street parking space in San Francisco (market rates plus externalities plus opportunity costs) and then charge an annual impact fee that captures that cost. Existing statutory and case law at the state and federal level already allows cities to assess impact fees to capture externalized public costs of private activity as an exercise of their police powers, as long as three conditions are met: 1) the assessment of the fee is in furtherance of a legitimate public interest, 2) there is a "nexus" (connection) between the activity and the impacts caused that the fee will be used to mitigate, and 3) the fee amount being assessed is in "rough proportionality" to the actual cost of mitigating the impact.

^j Since areas with high demand likely already have permit districts, we used a lower annual fee (\$240) than the one proposed for existing districts above (\$360). In areas where demand is low, the annual price might be less; in areas where demand was high, the price may be greater.

^k Ideally, the increase in fines would be revenue-neutral, but any short-term increase in fine revenue would be shared 50/50 between Muni and the General Fund, and Muni would realize operational savings in both the short- and long-term.

^l Implementation of a regional gas tax is a preferable policy, as discussed in the “Possible Regional Revenue Sources” section below. This is because regional gas taxes have the capacity to reduce vehicle trips (by increasing per trip costs), while local gas taxes have a less robust congestion management effect and can often simply create incentives for motorists to purchase gas from adjacent localities.

^m It is important to note that this proposal is for an impact fee based on a nexus study, not a property tax, although it could be administratively collected as a line item on property tax bills.

ⁿ Senator Carol Migden has previously introduced a bill to increase the state sales tax for transit. The MTA Board, Board of Supervisors, and Mayor should request Senator Migden to reintroduce such a measure and lobby for its passage.

^o Assemblyperson Mark Leno has previously introduced a bill (AB 799) to raise the VLF to 2% after approval by the Board of Supervisors and voters, with the revenue going to the General Fund. This bill was passed by the Assembly but was held in Senate Committee. It should be emphasized that the proposal described here is for the revenue from restoring the VLF to 2% to be dedicated to Muni.

^p Assemblyperson Leland Yee has previously introduced a bill (AB 1208) to assess a flat \$5 surcharge on vehicles registered in San Francisco, with the revenue going to street maintenance. AB 1208 was passed by both the Assembly and the Senate last year but vetoed by the Governor. It should be emphasized that the proposal described here is for a nexus study to be conducted to determine the actual cost of vehicle externalities in San Francisco and that some of the revenue from a vehicle impact fee be dedicated to mitigate congestion impacts on Muni. The Bay Area Air Quality Management District already has a regional \$4 per vehicle fee to provide funding for air pollution mitigation programs, and San Mateo County has a \$4 fee to fund traffic mitigation and water quality programs.